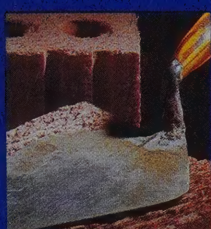
Jannock



Jannock Limited

Annual Report 1979

jannock (jan' ok) (North. dial.) *a.* and *adv.* Fair, straightforward

Source: Oxford Concise Dictionary

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Jannock Limited

Jannock Limited, through its wholly-owned subsidiaries, is engaged in sugar refining, brick manufacturing, the manufacture and distribution of steel tubing and the production of electrical components. A subsidiary in which the Corporation holds a majority interest manufactures and distributes a wide variety of steel products for industrial, commercial and residential use. Sales of $454.6 million and net earnings of $24.1 million rank it among the 100 largest corporations doing business in Canada.

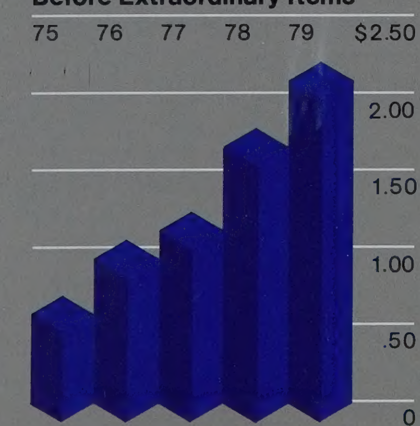
Financial Highlights

	1979 Million*	1978 Million*
Sales	**$454.6**	$323.3
Earnings from operations	**57.4**	40.8
Provision for income taxes	**21.6**	16.3
Net earnings	**24.1**	18.2
Working capital	**73.0**	66.3
Earnings per Common share	**2.10**	1.67
Equity per Common share	**7.07**	5.56
Dividend per Common share	**.59**	.54

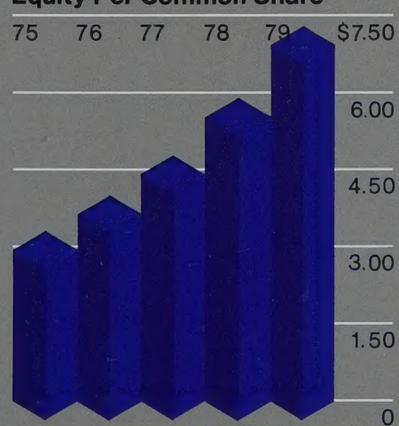
*Except per share figures.

Note:
On September 12, 1979 the Common shares of the Corporation were subdivided on a two for one basis. The per share figures used throughout this report reflect this subdivision.

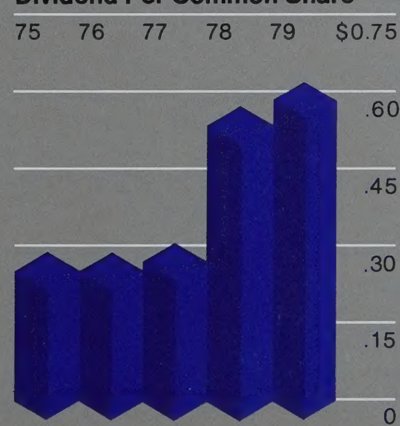
Earnings Per Common Share Before Extraordinary Items



Equity Per Common Share



Dividend Per Common Share



Report to the Shareholders

The year 1979 was the fourth consecutive year of improved earnings. The results for the year reflect the sound and expanding businesses conducted by the Corporation's subsidiaries.

Net earnings for the year were $24,070,000 or $2.10 per share, compared with earnings of $18,191,000 or $1.67 per share for 1978.

Consolidated sales for the year were $454,647,000 as compared with $323,302,000 in 1978. All of Jannock's operations achieved sales gains although a major part of the increase in sales came about because of the inclusion of increased sales of Westeel-Rosco for the full year rather than for a seven month period as in 1978.

As we enter the new decade, it is informative to focus on the change in the composition and quality of earnings since the formation of Jannock in 1973. In that first year, 47% of the earnings came from the foods division, 32% from the industrial division and 21% from the forest division, which was subsequently sold. In 1979, 15% of profits came from Atlantic Sugar (the fishing businesses having been sold) and 85% of the earnings from the industrial sector, made up principally of the steel and brick operations. The earnings have improved and so has their quality.

This shift in profit mix is the result of the plan to transform Jannock from a corporation conducting several unrelated and highly cyclical businesses to one with related or complementary operations, with more predictable earnings and well defined growth potential. The Canada Brick operation in Ontario was the foundation on which brick operations were expanded to Quebec and the midwestern and southern United States. The Sonco Steel Tube and Jannock Tube businesses were in place and with the acquisition of the majority interest in Westeel-Rosco, the Corporation has a substantial position in the Canadian steel industry. These are Corporations in basic industries where we possess the required expertise and financial resources to further expand.

While reflecting on the performance during the past seven years, it is noteworthy that the average return on shareholders' equity has been 28%, which ranks Jannock among the leading corporations in Canada in this respect.

Business Review and Prospects

The recession, which had been predicted, did not materialize in 1979, but the business climate was difficult in certain aspects. High interest rates were detrimental to our brick operations in two ways; the cost of borrowing for corporate purposes increased and the additional burden faced by prospective house buyers, in committing for high mortgage rates, served to reduce the number of house starts and consequently reduced the demand for brick. Forecasts of housing starts in both Canada and the United States varied widely. Some commentators sought to draw an analogy between the severely depressed conditions in the housing market in 1974-75 and the present circumstances. The analogy is not well founded. In the United States more sophisticated means are now in place so that there is a greater supply of mortgage money than five years ago. Today, the demand for housing, while temporarily reduced, is deferred, as demographic studies indicate a growing and consistent demand for housing in this decade. There is not now a surplus of housing overhanging the market so that once conditions become more favorable, the demand for building materials will be quickly felt. The widely held perception that real property is the best and most practical hedge against persistent inflation also augurs well for strong housing markets in the 1980's.

The prospects of our brick operations are further enhanced by the strategy we have followed in acquiring plants which are near important and growing markets. The state of Texas is an excellent market for brick, consuming one-sixth of the brick used in the United States and having to import brick from other states and Mexico. There is every reason to believe this situation will continue as Texas has a bright economic future. Consumption of brick is concentrated in the eastern half of the State, anchored by Dallas in the north and Houston in the south. In order to serve the Dallas/Fort Worth market, we have constructed a new clay brick plant which will be the most efficient producer in the State. Concrete brick also has a place in the Texas market, competing as it does against Mexican imported brick and to participate in that market the Corporation purchased Tiffany Brick of San Antonio. There are other opportunities of this kind which are under active consideration. Just five years ago, the brick operations were confined to Canada with sales of $15 million. In 1979, brick sales amounted to $55 million and covered the Provinces of Ontario and Quebec and ten states in the United States.

In reviewing the past year and commenting on future plans, we must place emphasis on Jannock's steel operations. The Corporation's major commitment in 1979 was made in the steel sector with the authorization of a $20 million expenditure for the construction of a new mill to produce hollow structural sections of a size up to 12 inches square with a wall thickness of ½ inch. This mill will produce round, square and rectangular steel sections in varying lengths which are used in a variety

of applications and industries. Sonco Steel presently fabricates sections to a size of 7 inches square with a 3/8 inch wall thickness. A comprehensive study indicated that the market for the larger sizes has excellent growth potential. This is particularly true in the heavy construction industry in the United States and Canada, where the market is virtually untapped for the larger sizes of hollow structural sections. The construction of the mill at a new facility in Brampton, Ontario has commenced and we anticipate that it will be operational in the second quarter of 1981. We believe this operation will contribute significantly to the growth in Jannock's earnings in the early 1980's.

It is not the purpose here to comment on each of the businesses; that is done later in the report. It is appropriate, however, to comment briefly on certain other fundamental factors which will affect our operations in the years to come. All of our businesses have conducted a rigorous audit of their energy uses and initiated programs to reduce energy consumption where possible. We can only reiterate the concern expressed by spokesmen for Canadian industry on the outlook for energy in the 1980's. The cost of energy is important, but at least equally important is an assured supply for the future.

One note on inflation. Increased productivity is one way to reduce inflation and by making investments in machinery and equipment and adopting labor saving methods we are achieving increased productivity.

Optional Dividend Plan

In 1979 the Corporation adopted a policy designed to provide the holders of Common shares with the option of receiving dividends in cash, in additional Common shares or in Third Preference shares.

The policy was adopted so as to allow shareholders to take advantage of amendments in the Income Tax Act. The Act now provides that shares issued as stock dividends to shareholders resident in Canada are not taxed as dividends when received, but rather on a capital gains basis when such shares are sold.

Directors

Mr. George Hitchman, Deputy Chairman, The Bank of Nova Scotia, did not stand for re-election to the board of directors at the 1979 annual meeting. Mr. Hitchman contributed substantially to the progress made by the Corporation during his time as a director.

H. Gordon MacNeill and George E. Mara

Mr. Lewis Ayre has advised that he does not wish his name put in nomination for election as a director at the annual meeting of shareholders. Mr. Ayre has served as a director of the Corporation or one of its predecessor Corporations since April, 1969. His counsel and advice over the years has been of great value to Jannock and his fellow directors.

Mr. J. C. Barrow, former Chairman of Simpsons-Sears Limited, was elected a Director of the Corporation at the annual meeting held on April 23, 1979. His wealth of experience and diverse business interests will add significantly to the strength of our board of directors.

Dividends

We believe that it is of fundamental importance that the economic environment should encourage investment in wealth producing businesses and that those who do invest in equities should see their income grow as the corporations in which they invest prosper. We recognize that it is desirable for our shareholders to receive increased dividends as the earning power of Jannock grows. In this way, shareholders will be rewarded for their commitment to Jannock.

We would like to acknowledge the excellent performance of our employees and congratulate them on their contribution to the Corporation's success in 1979. We look forward to the new decade.

George E. Mara, Chairman of the Board

H. Gordon MacNeill, President and
Chief Executive Officer

March 14, 1980

Review of Operations

Sources of Earnings from Operations

Brick Operations

Brick operations make clay and concrete brick in a wide variety of sizes, colors and textures.

Plants are located in three major geographical areas. The Canadian market is served from manufacturing facilities in Quebec and southern Ontario. The combined capacity of these locations is 250 million units annually. The United States' mid-west market is supplied from facilities located in Michigan, Ohio and Kentucky. Their combined annual capacity is 210 million units. Texas is the newest area to be served by the Corporation. Plants located at San Antonio and in the Houston area, as well as one under construction at Mineral Wells, west of Dallas, will supply the major areas of that State. The combined capacity in Texas will be 180 million units annually.

Westeel-Rosco

Westeel-Rosco's business activity is organized into five basic product groups: Agricultural, Building, Highway and Drainage, Warehouse/Residential and Industrial.

The Agricultural product group is best known for grain storage and handling systems. The group also produces tanks for the storage of bulk feed and roofing and siding for farm buildings.

Building products include roof and floor decking and precoated metal wall cladding. Westeel-Rosco has the Canadian franchise for Stran-Steel buildings and manufactures a wide range of multi-purpose pre-engineered metal buildings.

Highway and drainage products include corrugated metal culvert pipe, tunnel liner, bridge deck, guide rail and structural plate used for large span arches and tunnels.

The Warehouse/Residential product group provides an extensive range of steel and aluminum products to its customers through the Corporation's branches and the service centre in Toronto. Residential products include "Leisure Time" pre-painted privacy fencing and other building components.

The Industrial product group manufactures material handling and racking systems, industrial feed and chemical tanks and custom fabricated products.

*The Corporation owns 76.6% of the outstanding shares of Westeel-Rosco Limited.

Atlantic Sugar

Atlantic Sugar Limited, Canada's second largest refiner and seller of sugar, packages a full line of high quality products at its Saint John, New Brunswick, refinery. This facility processes approximately 1,000 tonnes of cane sugar daily. Raw sugar, imported mostly from Commonwealth countries, is offloaded at the Corporation's deep water dock the year round.

The Corporation supplies the eastern Canadian market from Newfoundland to western Ontario with granulated, brown, icing and liquid sugar in units ranging in size from 4 gram individual envelopes to 80 tonne bulk rail cars. These products are sold to chain stores, soft drink producers, bakeries, confectioners and wholesalers. Sugar is distributed from the Corporation's warehouses in Saint John, Montreal and Toronto. This distribution network is supplemented by public warehouses in other key locations in eastern Canada.

Sonco Steel Tube

Sonco is a major producer of tubular steel products. Hollow structural sections and mechanical steel tubing are manufactured by cold forming and electric welding steel strip purchased from the primary Canadian producers.

Mechanical steel tubing is fabricated in round, rectangular and oval shapes, ranging in size from .375 inches to 3 inches in diameter. The tubing is used in the manufacture of furniture, toys, baby carriages, snowblower and lawn mower handles, swing sets, exercise equipment and a wide variety of other products.

Hollow structural sections are fabricated in square, round and rectangular shapes up to 7 inches square with wall thicknesses up to .375 inches. These sections are produced from "hot rolled" strip steel of various metallurgical compositions to meet specific customer requirements. Typical applications include highway guardrail, industrial and agricultural equipment frames, building columns, mobile homes and racking.

Jannock Tube

Jannock Tube distributes over 2,200 sizes of round, square and rectangular tubing and pipe products. The Corporation maintains an inventory valued in excess of $7,000,000, purchased from over fifty sources in North America and abroad. Lyman Division warehouses are located in Montreal, Oakville and Winnipeg. The Tubeco Division warehouses are located in Calgary, Edmonton and Vancouver.

The Corporation sells to many different industries, and its customers range in size from one man machine shops to multi-million dollar conglomerates.

65% of the Corporation's sales and 90% of its profits are a result of its warehousing activity. Because the average order size is only approximately $500, it must process many individual orders efficiently to maintain customer loyalty and confidence. The remaining 35% of sales volume, but only 10% of profit, is derived from the placement of customer orders directly with producing mills. In this case large quantities of tubing are shipped directly from the producing mill to the customer.

Allanson Manufacturing

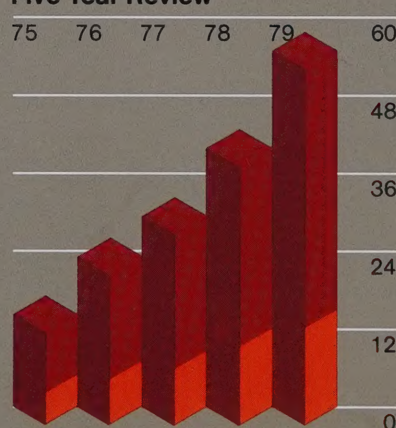
Allanson produces a wide range of electrical equipment for the heating, lighting and consumer products industries.

Allanson is a prime supplier of fluorescent ballasts and neon transformers for Canada's illuminated sign industry. Its High Intensity Discharge ballasts are used for both indoor and outdoor lighting, from highway applications to shopping centres. Allanson's other product lines include power converters, which are used extensively in the recreational vehicle market and portable battery chargers and special power supplies.

The Corporation also manufactures a full line of ignition transformers and fuel pumps used on both residential and industrial oil furnaces. These transformers are exported around the world.

Brick has been a basic construction material for over 2000 years.

Five Year Review



Sales ($ million)
15.0 23.0 29.4 40.2 55.3

Earnings from Operations ($ million)
5.0 7.2 8.6 12.0 14.8

Brick Operations

Operations Review

The year 1979 saw brick operations continue to grow by both acquisition and expansion of existing facilities. In April the Corporation completed the purchase of McFarren Brick, located near our main plant in Mississauga, Ontario. Its acquisition provides sufficient shale reserves to lengthen the productive life of the Mississauga operation to 15 years. It also adds 15 million units annually to Ontario's capacity. The 60 acre site will have substantial value as real estate following the exhaustion of the shale reserves. The construction of a second new kiln at the Michigan facility was successfully completed and two small inefficient kilns were closed. The capacity of the Kentucky operation was doubled by adding a second kiln to the modern plant already there.

Construction of the Mineral Wells, Texas, facility has proceeded on schedule and the main building and first kiln will be completed by April. A second kiln, which will bring the plant's capacity up to 80 million units annually, will be completed around mid-year. Tiffany Brick of San Antonio, Texas, was acquired in September 1979. The principal product is concrete building bricks, which are produced in plants in San Antonio and Rosenberg, about 30 miles west of Houston. Tiffany also produces clay brick at a plant located just outside of San Antonio. The total capacity of the plants is 100 million units annually. Concrete brick has gained excellent acceptance in Texas and the acquisition of this leading manufacturer provides the Corporation with an entry into this important segment of the market as well as a marketing arm in southern Texas for brick which will be produced at the Mineral Wells facility.

The Canadian operations experienced a relatively strong demand in the early part of 1979 as carry-over completions from the previous year remained high. In spite of the overall building activity being below that of 1978, the Corporation was able to increase its market share sufficiently to show growth in both sales and profits.

Although the American market started out at a brisk pace, housing starts began to decline early in the year. The Kentucky market fell off earlier and with more severity than other areas. The Ohio operations benefitted from a strong demand for the "soft mud" line of brick and a significant improvement in the profit position resulted. Michigan Brick was able to maintain sales and show some profit improvement in the face of a sharp market decline in its principal markets of Detroit and Chicago. The newly acquired Tiffany Brick made an appreciable profit contribution during the last quarter of the year.

All locations were able to maintain their manufacturing costs which had been planned for the year, and the benefits of modernization were particularly evident at those locations with new facilities and where efficiencies were introduced during the year.

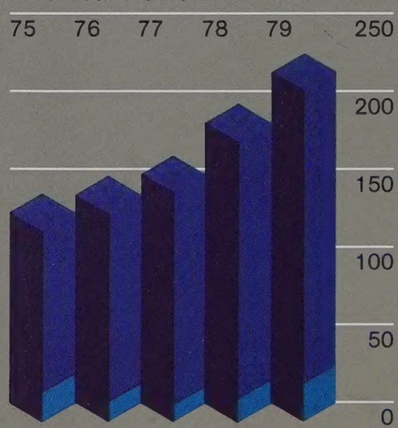
Outlook for 1980

The industry is entering 1980 with more uncertainty than has been experienced for several years. While the overall Canadian residential market will decline, Ontario and Quebec are expected to maintain a level only slightly below that of 1979. The American residential market is expected to continue its downward trend at least through mid-year, resulting in an overall reduction of approximately 10%. Non-residential activity will be lower than 1979 levels in both countries.

The cost of fuel, high interest rates and inflation generally will continue to maintain an upward pressure on costs. Selling prices will be subject to strong competitive pressures. These factors, along with the costs of starting up the Mineral Wells operation, will have a dampening effect on profits. Although sales levels will likely increase due to the annualization of acquisitions and expansions, the Corporation expects profits to be marginally lower than those earned in 1979.

Steel cladding makes everything from small bins to large buildings quickly, inexpensively.

Five Year Review



Sales ($ million)
121.0 132.5 146.0 178.0 211.5

Earnings from Operations ($ million)
18.1 12.4 9.2 14.5 23.9

Operations Review

In 1979, earnings from operations increased 67% from those of 1978 on a sales volume increase of 19%. The earnings performance is the result of both increased sales volume and improved profitability in each of the Corporation's major product groups.

Agricultural product sales, at $79.5 million, grew 13% over the previous record level of $70.2 million reported in 1978. The Corporation was able to capture a significant portion of the very strong market that existed at the beginning of the year for its major agricultural product, grain storage and drying bins. However, demand for this product fell off considerably during the balance of the year. Sales of other agricultural products, including bulk feed tanks, fertilizer equipment, farm storage tanks and farm roofing and siding remained strong. In 1979, the Corporation introduced a new agricultural product: prefabricated, all steel storage elevators, made out of self-locking panels. This "panelizer" product also has potential for non-agricultural commercial storage.

Sales of building products grew to $64.4 million, increasing 27% over 1978's sales of $50.7 million, with much of the increase occurring in the latter part of the year. The sales growth is primarily due to a significant increase in non-residential construction in Canada following three years of depressed activity in the construction market. The Stran-Steel division, included in this category, also experienced strong demand for its products in 1979, although its results were impacted by a 10 week labour stoppage.

Sales of highway and drainage products were $29.8 million, an increase of 9% over sales for the previous year. During the year, the Corporation expanded its production capability for "Recor" helical pipe, whose strong and easily connected joints increase its acceptance for both conventional and new applications.

Sales of residential and warehouse products totalled $22.3 million, 29% higher than in 1978. Warehouse product sales increased significantly during 1979 because of a generally active market for steel products. Sales of the residential "Leisure Time Fencing" showed continued growth, but sales and profitability of the eavestrough line suffered from strong competition from plastic eavestrough and from a lower rate of house construction.

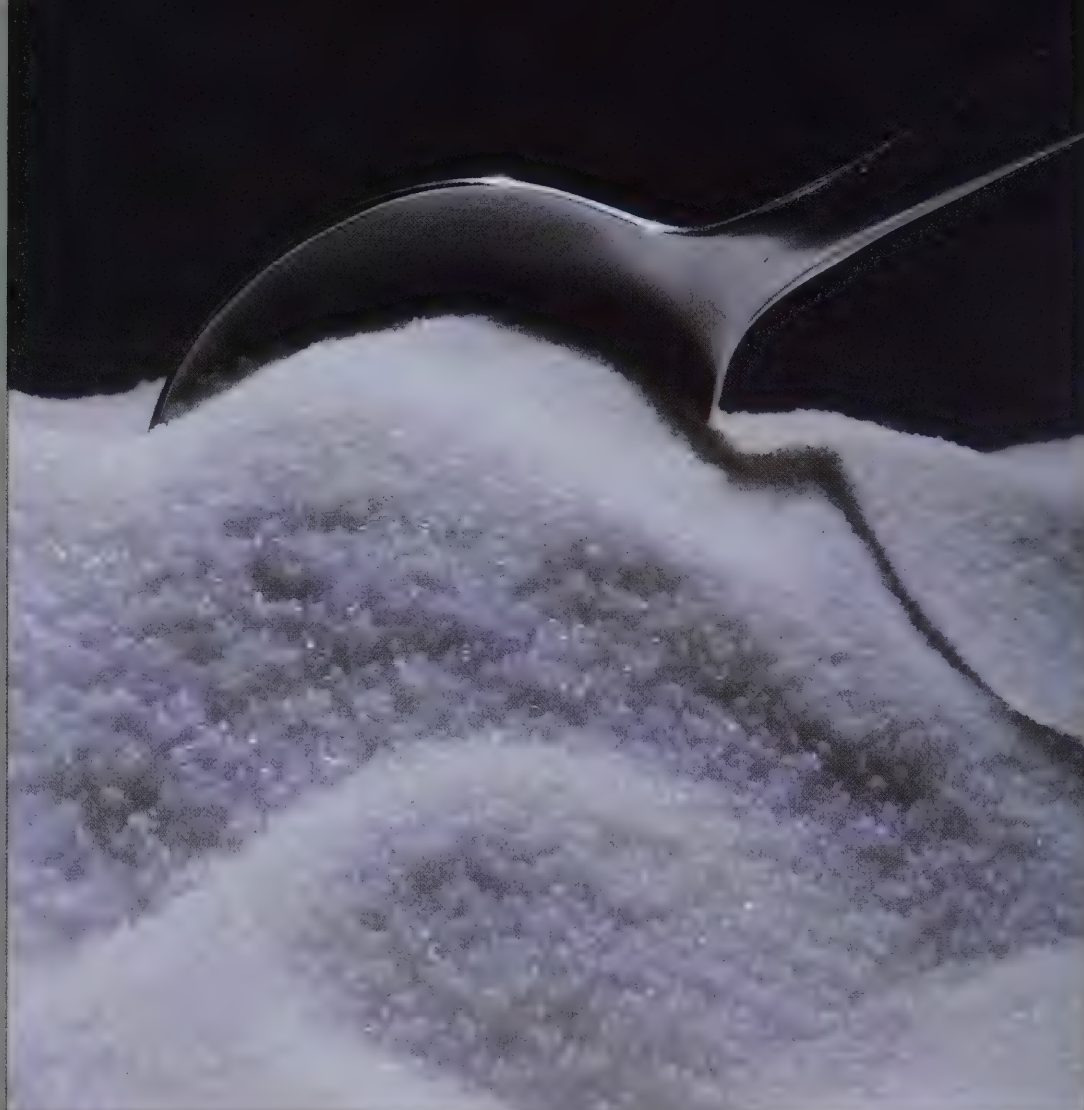
Industrial products sales were $15.5 million, up 23% from the previous year. This growth is due to an increased demand for fuel and chemical storage tanks and higher volume of racking and material handling systems sold by the cubic storage systems division.

Capital expenditures in 1979 were $3 million for a wide number of items at the various facilities. A number of projects have been approved but not yet completed, including a significant expansion of our office facilities in Edmonton, the construction of a new helical pipe plant in Burlington, Ontario, improved manufacturing equipment at our Stran-Steel division, together with the purchase of additional recorrugators for the various helical pipe mills. A major expansion of plant, warehouse and office facilities at the main Rexdale plant has also been approved for completion in 1980.

Outlook for 1980

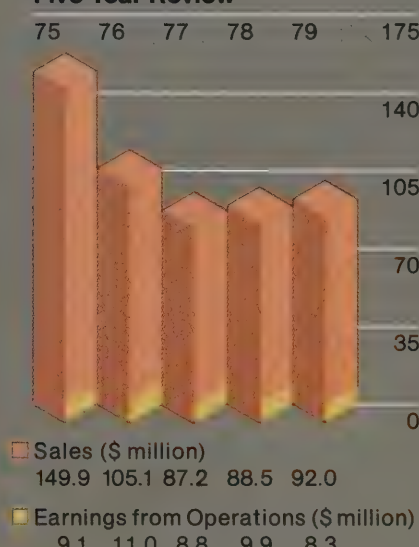
The Corporation entered 1980 with a reasonable order backlog. However, it is anticipated that a slow economy and the increased availability of steel will result in strong competition and lower profit margins. It is forecast that the 1980 sales volume will approximate that of 1979.

While the Corporation's 1980 performance is not expected to equal that of 1979, capital goods spending should accelerate sometime during 1981, resulting in strong demand for many of the Corporation's products and the long range outlook for the Corporation is sound and can be viewed with confidence.



Sugar makes many of the good things in life.

Five Year Review



Atlantic Sugar

Operations Review

Raw sugar, as quoted on the London, England, spot market, has risen from £94 per tonne in January 1979 to £179 per tonne in January 1980. This increase in the price of raw sugar was the cause of higher dollar sales over the previous year even though tonnage volume of sales was slightly lower than the previous year. Consumption of sugar has stabilized and did not change from year ago levels. Some volume of sugar was displaced by High Fructose Corn Syrup, although quantities were minimal. High Fructose Corn Syrup is a corn based sweetener derived from corn starch by hydrolysis. It has applications in industrial uses.

Severe price competition was prevalent throughout the year and put pressure on margins. High interest rates meant higher costs in financing the required inventories of raw sugar and receivables. Fuel, labour, material and transportation costs were all significantly higher during the year and in most cases could not be passed along to consumers as they occurred. Lower tonnage sales, together with the increase in costs, caused earnings from operations to decline from $9.9 million in 1978 to $8.3 million in 1979.

Renovations to the refinery's filter house vessels and handling equipment were undertaken in 1979. These improvements cost $2.65 million and will completely modernize that section of the Saint John, New Brunswick refinery.

Over the past five years, Atlantic Sugar and other eastern Canadian refiners sold modest amounts of refined sugar to customers in the United States. Prior to that time, the United States had not permitted the importation of refined sugar in any quantities. Early in 1979 the largest American sugar refiner filed a complaint with the United States Treasury Department, alleging dumping of Canadian refined sugar in the northeastern part of the United States. In November the U.S. Treasury Department determined that dumping of Canadian refined sugar had in fact occurred and referred the matter to the United States International Trade Commission. The Commission held a hearing in Washington to determine whether the sugar refining industry in the United States is being or is likely to be injured by the importation of Canadian refined sugar. Atlantic Sugar and other eastern Canadian refiners were represented at the hearing. The Commission recently ruled that the American industry is being injured. As a result, any Canadian refined sugar will, in the future be subject to special charges.

Outlook for 1980

Generally, economic factors do not have the direct impact on Atlantic Sugar operations as they have on other Jannock businesses. The planned level of output for 1980 at the Saint John, New Brunswick refinery is at or near normal capacity. There has been overcapacity in the eastern Canadian refining industry for a number of years; the closing of the Montreal refinery of one of the Corporation's competitors will help bring the capacity for refining sugar in line with the demand for sugar. This closing will allow Atlantic Sugar to more vigorously compete in the Montreal market and every effort will be made to increase the market penetration in that area.

The program to upgrade the handling and shipping facilities at the Montreal and Toronto distribution centres will continue and by mid-year the ability to handle liquid sugar will have been expanded and modernized. In addition, equipment will be installed to handle High Fructose Corn Syrup blends. The higher price levels of sugar will favour the increased use of High Fructose Corn Syrup and it is important that Atlantic Sugar be able to meet all of the sweetener requirements of its customers.

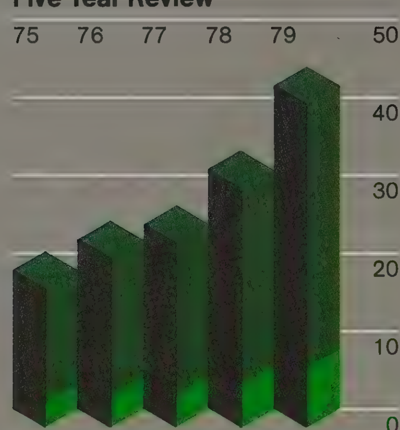
Labour relations will be very prominent in the year. The collective agreements covering our employees at the Saint John refinery and the Montreal and Toronto warehouses come up for renegotiation in 1980.

For the first time in seven years world consumption of raw sugar will exceed world production. Surplus stocks have been accumulated in the past years and are available to offset the shortfall. It is expected, however, that raw sugar prices will fluctuate narrowly around the present level. Interest costs for raw sugar inventory and receivables will therefore continue to be substantial.

The outlook for 1980 is for a challenging year where inflationary pressures on costs and expenses will tend to hold earnings close to the 1979 level.

Structural tubing is a strong, light, versatile product to meet future building needs.

Five Year Review



Sales ($ million)
17.5 21.7 23.7 30.6 41.3

Earnings from Operations ($ million)
3.1 3.8 4.0 5.3 7.6

Sonco Steel Tube

Operations Review

The peak demand for tubular steel products that developed during 1978 continued throughout most of 1979 and placed the Corporation in a "sold out" position.

The demand for tubular steel products exceeded the industry's ability to supply and resulted in firm prices and margins throughout the whole year. Sonco, like others in the industry, benefitted from this price stability.

Sonco made major gains in margins by eliminating low volume, low margin products from its line and concentrating on those products which were popular with its major customers. This shift in marketing strategy also enabled the Corporation to plan longer, more efficient production runs. The production time lost as a result of changeover downtime was reduced to a minimum. The Corporation also added a "looper" to its largest structural mill. A looper is a device which accumulates strip steel and feeds it to the mill under controlled conditions so as to provide a continuous flow of steel. Prior to the installation of this equipment, the mill had to be shut down for five of every fifteen minutes so that a new coil of strip steel could be welded to the coil being processed. This addition, combined with other equipment additions and plant improvements, resulted in an increase in tonnage throughput of 22% over the previous year.

During the year, the Corporation also completed extensive repairs to plant and equipment. This work was the first step in an overall plan to upgrade all manufacturing equipment and strengthen the in-plant maintenance.

Sonco added few new customers during 1979. The increased production capability was utilized to keep pace with the growth of the Corporation's major customers.

A new manufacturing facility was also announced by the Corporation. The 75,000 sq. ft. plant will be built on a 15 acre site located approximately two miles from the existing plant in Brampton. The plant's initial mill will have a capacity to produce hollow structural sections twelve inches square with a half inch wall thickness. This will give the Corporation a product range capability equal to that currently available from any Canadian source. Of greater importance, however, is the new mill's tonnage throughput capability. When operated at capacity, the new mill will effectively double Sonco's output. This major investment of $20 million in plant and equipment will enable the Corporation to keep pace with the needs of its customers in the United States and Canada throughout the coming decade. The plant is scheduled to begin production in the second quarter of 1981.

Outlook for 1980

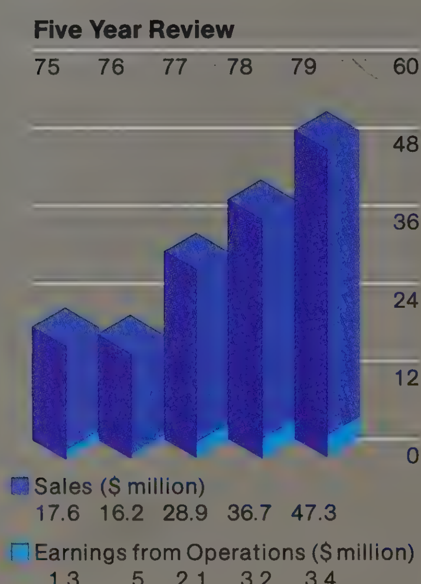
Modernization programs designed to upgrade Sonco's current facilities, commenced in 1979, will continue throughout 1980. Plans include the building of a comprehensive in-house repair and maintenance facility necessary for both the existing and expanding operations.

The demand for tubular products is expected to slow during the first half of 1980. Increased availability of steel has resulted in lower levels of bookings as customers undertake inventory adjustments. Currently, the future demand for plant, machinery and agricultural implements appears strong and should result in a satisfactory level of business.

Availability of steel, while not currently a problem in Canada, could become one in the latter half of 1980. However, Sonco will have sufficient material available to meet requirements.

Sonco plans to continue running at capacity in 1980.

Prompt delivery is important to busy customers with waiting production lines.



Jannock Tube

Operations Review

The buoyancy of Canadian manufacturing in general and the steel industry in particular created a strong demand for tubular and pipe products for most of the industrial classifications serviced by the Corporation and led to a marked growth in mill direct orders. Sales in this type of business were 110% greater than during the previous year. Mill direct orders are those which are shipped directly from the producing mill to the customer and, while larger in sales volume than the average warehouse order, they contribute a smaller profit margin to the Corporation. These sales do, however, provide a service to the customer and enable the Corporation to provide a complete service package.

Good sales increases were also made in sales of tubular and pipe products from warehouses located in the major business centers across Canada. Most of the year's increase in profit was generated by this activity.

As might be expected, the greatest gains in both sales and profits came from the west with Alberta showing the greatest strength. A new, larger warehouse was opened in Calgary in September. That warehouse is exceeding sales expectations and will enable the Corporation to better serve the Alberta market in the years to come. A consolidation of the two warehouses and a reorganization of the sales department in Vancouver was a contributing factor to a major improvement in both sales and profits in the British Columbia area. A resident salesman was located in Regina as a further step in establishing operations in the growing Saskatchewan market.

Substantial sales gains were also made in eastern Canada. Because the eastern Canadian market traditionally has a higher proportion of mill direct business than the west, and because there was stronger pressure on margins from local competition, the eastern branches did not enjoy the same levels of profitability.

Profit margins in both east and west were adversely affected by increased interest rates on borrowings for warehouse inventories.

Outlook for 1980

The moderate slowdown in the Canadian economy will have a positive effect on the earnings of the Corporation. Economic recession or uncertainty about the country's economic future tends to cause users of tubular products to rely more heavily on stocking warehouses for their requirements. Customers are reluctant to assume the risk of large volume orders or the long lead times which are associated with placing orders directly with producing mills.

Jannock Tube will place substantially greater emphasis on servicing these customers from warehouse stocks during 1980.

The Corporation will open a branch warehouse in Saskatoon in the first quarter of 1980.

Copper and steel are the basic components of all 1500 sizes and types of Allanson transformers.

Five Year Review

Sales ($ million)
6.6 9.1 9.2 10.3 12.8

Earnings from Operations ($ million)
.8 1.1 1.2 1.2 1.1

Allanson Manufacturing

Operations Review
Allanson's sales of street and area lighting products improved substantially during 1979. Allanson manufactures a full range of lighting ballasts, including those High Intensity Discharge ballasts which power the very energy efficient high pressure sodium lamps. These lamps, with their characteristically pale yellow/orange light, produce as much illumination but use only about 40% as much energy as the older style lamp, saving tax payers approximately $1,000 per mile per year for highway illumination.

While the Corporation's position as a major supplier to the street and area market improved, the profit margins in this product category are not as favourable as those earned on the Corporation's oil heating products.

The uncertainty regarding the long term availability and the price of fuel oil has resulted in a reduced market for fuel pumps and oil burner transformers – two large volume and profitable product lines for the Corporation. Of less serious consequence, because of their relative size, was the noticeable slowdown that occurred in the demand for products which Allanson supplies to the manufacturers of recreational vehicles. Rising gasoline prices have had a dampening effect on the sales of these vehicles and while Allanson increased its market share by adding new products to its line of power converters, the actual number of units sold declined over the previous year.

Sales of electrical products for the sign industry and battery chargers for the consumer market remained firm throughout the year.

The impact of severe cost increases in material, particularly copper and steel, used in the manufacture of Allanson's products imposed considerable downward pressure on profit margins and competitive factors in some areas precluded Allanson from passing on these cost increases to its customers.

Allanson continues to maintain a healthy relationship with its employees and encountered no unusual labour problems during 1979.

Outlook for 1980
The Corporation is anticipating a steady demand in the street and area lighting products area. While the total market increase for these products will be modest, Allanson plans to increase its sales through a substantial increase in its market share position.

The continuing shift away from oil as a heating fuel in Canada will continue to affect Allanson's sale of fuel pumps and transformer products in this country. The Corporation, however, has developed a new ignition transformer, more compact, lighter in weight and priced very competitively, which can be sold in the United States. The conversion away from oil for heating purposes has not been nearly as dramatic in the United States, because that country lacks Canada's natural gas reserves and the cost of electricity is, in many cases, substantially higher than in Canada. Allanson is in a unique position, because of its experience and lower costs, to capitalize on this market opportunity. Allanson expects to generate sufficient additional export volume in 1980 from some of these products to more than offset the anticipated loss in Canadian business, which will be caused by the further decline of the oil heating industry.

The Corporation is projecting a significant increase in sales during 1980 and expects earnings to be approximately the same as those earned during its best profit year 1978.

Financial Review

Acquisitions and Expansion

The Corporation continued its expansion in 1979 as can be seen from the increase of $24 million in gross fixed assets. Acquisition of brick related assets accounted for $9 million of this increase, expansion of brick operations was responsible for another $7 million and the other $8 million was spread throughout the other operations.

Approved capital expenditures for 1980 amount to $27 million. This includes a major expenditure of $15 million to double the capacity of the Sonco operations by the addition of a new large tube mill. This project will carry over to 1981 when a further $5 million will be expended. Other major items include the completion of the Mineral Wells brick plant and the upgrading of the sugar refinery and improvement of certain Westeel facilities. The cash required for these expenditures can be financed from internally-generated sources.

Accounting Policies

In 1979 the requirement for the capitalization of leases meeting certain criteria was adopted by the Canadian Institute of Chartered Accountants (C.I.C.A.). A review of the Corporation's lease commitments indicated that there were no significant leases of this nature.

The Corporation has adopted a policy of capitalizing interest as part of the cost of construction on major construction projects so that current reported earnings will not be distorted. This policy is prompted by the construction of the new mill by Sonco Steel Tube and the brick plant at Mineral Wells, Texas.

In 1978 the Corporation adopted the "temporal" method for translation of foreign currencies as recommended by the C.I.C.A. Early in 1979 the C.I.C.A. suspended this recommendation thereby permitting alternative methods of reporting. Pending final resolution of this matter, the Corporation is continuing to use the method adopted in 1978. This has not had any significant effect on the financial statements. Details of this method are shown in the Statement of Accounting Policies in the financial statements.

Sales and Earnings

Sales increased $131 million to $455 million. Almost half of this increase reflects the annualization of the Westeel and Brick acquisitions in 1978.

Earnings after minority interest and before extraordinary income amounted to $24,069,683 or $2.10 per share compared to $18,191,221 or $1.67 per share for 1978, after giving recognition to the 2 for 1 share subdivision in 1979. After recognizing financing costs, the 1978 results would have been higher by 5 cents if the Westeel acquisition had been owned for the full year.

Review of Quarterly Sales and Earnings

	Net Sales Millions		Net Earnings Millions		Earnings Per Share*	
	1979	1978	**1979**	1978	**1979**	1978
First Quarter	**$ 83.2**	$ 42.0	**$ 3.2**	$ 2.6	**$0.23**	$0.22
Second Quarter	**119.5**	71.9	**8.3**	5.0	**0.77**	0.48
Third Quarter	**126.5**	109.1	**7.7**	5.9	**0.72**	0.57
Fourth Quarter	**125.4**	100.3	**4.9**	4.7	**0.38**	0.40
	$454.6	$323.3	**$24.1**	$18.2	**$2.10**	$1.67

*All calculations based on the weighted average number of shares outstanding for the year but 1978 per share earnings adjusted to reflect the 1979 2 for 1 share subdivision.

Interest Costs

The prime rate rose from 8.25% to 11.50% in 1978 and continued to increase in 1979 to close at 15%. This rate increase, combined with higher borrowings, resulted in short term interest costs in 1979 of $6.4 million compared with $3.1 million in 1978.

Interest costs on long term debt moved up marginally to $3.5 million from $3.3 million the year earlier. It should be noted however, that the costs for 1978 included $600,000 for interest on the interim borrowing to finance the acquisition of the shares of Westeel-Rosco prior to the issuance of the term preference shares. Therefore, a better comparison of interest costs on long-term debt is to compare 1979 costs of $3.5 million with 1978 adjusted costs of $2.7 million.

Investment income in 1979 was down because corporate funds, which formerly were invested in short-term securities, were used to finance the expansion of the brick operations.

C. W. Leonardi

Depreciation
Depreciation charges increased to $7.2 million from $5 million in 1978. It is interesting to note that in the space of three years, depreciation charges have risen from $3 million to $7.2 million, largely because of acquisitions.

Income Taxes
There was a marginal reduction in the average rate of income tax from 45.8% to 44.8% due basically to the fact that there were provisions of a non-deductible nature in 1978.

Shares Outstanding
The number of Common shares outstanding was doubled as a consequence of the two for one subdivision of the shares on September 12, 1979. In addition, approximately 160,000 Common shares were issued as a result of the exercise of warrants and stock options and the issuance of Common shares under the Optional Dividend Plan.

The Optional Dividend Plan was introduced in February, 1979. During the year 11,300 Common shares were issued under the Plan and approximately 80,000 Third Preference shares issued. With the exception of 503 shares, all Third Preference shares were redeemed at the option of the shareholders.

Balance Sheet
The major change in the balance sheet for 1979 was the increase in inventories. The increase is attributable to three factors: the high carryover of raw steel and grain bins by Westeel-Rosco, larger brick inventories and the increased value of the inventory of sugar as a result of the run up in the price of raw sugar from the 1978 levels.

Working capital increased in absolute terms by $7 million, although the current ratio declined from 1.7 to 1.57 to 1. This is still an acceptable level. While it is anticipated that the inventory position will be reduced in the forthcoming year, surplus cash could be used for the capital expenditure program, which will mean the ratio will probably remain at its present level.

While total long-term debt increased by approximately $4 million, the movement of approximately the same amount into current instalments left the long-term position at the same level.

The deferred income tax in current liabilities results from the construction hold-back position of Westeel and unrealized gains on sugar contracts, neither of which are taxable until realized.

Retained Earnings
Two factors affected retained earnings. First, the dividends on the First Preference shares were higher in 1979 than in 1978. This was due to the fact that the shares were outstanding for the entire year rather than for only four months in 1978, and that the dividend rate increased as it is referenced to the prime bank rate. The second factor was the increase in the dividend on the Common shares, commencing with the October 1, 1979 dividend. These two factors increased the dividend payments made by the Corporation by some $2 million in 1979.

Segmented Data
The C.I.C.A. has adopted standards which require that corporations provide shareholders with financial information broken down according to the industry in which it operates a business and by geographic area. The new rules will apply to the financial statements for 1980.

This Corporation has, for many years, provided shareholders with information on sales and earnings from operations by the several lines of business. The new rules, however, extend to providing information on the assets employed by each business at the end of the fiscal year.

It is in this area that serious misunderstanding may arise because as the rules are presently drafted, there is no requirement to state the date when assets were acquired or brought into operation whereas the income will only be included from such date to the end of the fiscal period. Thus, serious distortion of the measure of a business's performance could take place on this account. It is important that this matter be thoroughly reviewed so that the information provided will be meaningful.

Inflation Accounting

In the United States the accounting profession and regulatory agencies require major public corporations to provide information on the effects of inflation in their financial statements. This subject is now at the Exposure Draft stage by the C.I.C.A. with the view of adopting similar standards in Canada.

The matter is a complicated one and it is sufficient here to make only general comments. It is proposed that supplementary data be added to the historical financial statements to reflect the inflation factors, one of which is to use the replacement cost of the corporation's fixed assets rather than the historical costs in calculating depreciation. Because replacement costs are usually much higher than original costs, the allowance for depreciation is substantially increased, thus reducing the earnings reported on a historical basis. In addition, when one applies the actual amount of tax paid to the adjusted earnings, the effect of taxes is substantially above the current corporate rates.

The complications involved in such a second accounting technique are evident. While management must be aware of the inflation problems, there appears to be no real value in requiring yet another set of reporting rules unless Government is prepared to modify the tax position relating to inventory and fixed assets. It is clear, however, that what today are often considered very high profits are only a reflection of profits expressed in inflated dollars and provided by assets which in many cases can only be replaced at two or three times their original cost.

Summary

This past year has been one of continuing growth. The major change in the fiscal position was the increase in inventories with a marginal reduction in the working capital ratio. The working capital is, however, adequate as can be seen from the fact that total bank indebtedness is covered by approximately 85% of receivables.

The long-term debt to equity ratio (allowing for the term preferred shares to be treated as debt), improved as debt remained relatively constant while equity increased by some $14 million. As a consequence, the 1978 ratio of 44% Debt/56% Equity improved in 1979 to 39% Debt/61% Equity. Since most of the capital expenditures for 1980 can be met from internally-generated sources, there will be a further improvement in the Debt/Equity ratio in 1980.

The Corporation, even under difficult economic conditions of high inflation and high interest rates, is in a position to make further investments as and when the opportunities present themselves.

C.W. Leonardi,
Executive Vice President, Finance.

Financial Statements 1979

Consolidated Statement of Earnings

For the Year Ended December 31, 1979	1979	1978
Sales	**$454,647,094**	$323,301,799
Cost of sales, selling, distribution and general expenses	**390,036,081**	277,299,052
Depreciation	**7,187,213**	5,152,874
	397,223,294	282,451,926
Earnings from Operations	**57,423,800**	40,849,873
Interest on long-term debt	**3,562,051**	3,292,315
Interest on short-term debt	**6,381,187**	3,106,632
	9,943,238	6,398,947
Investment and other income	**808,786**	1,233,638
	9,134,452	5,165,309
Earnings Before Income Taxes	**48,289,348**	35,684,564
Provision for Income Taxes		
Current	**21,161,801**	15,857,873
Deferred	**481,524**	484,470
	21,643,325	16,342,343
Earnings Before Minority Interest and Extraordinary Income	**26,646,023**	19,342,221
Minority Interest	**2,576,340**	1,151,000
Earnings Before Extraordinary Income	**24,069,683**	18,191,221
Extraordinary Income (note 8)	**51,216**	–
Net Earnings for the Year	**$ 24,120,899**	$ 18,191,221
Earnings per share (note 7)		
Before extraordinary income	**$2.10**	$1.67
After extraordinary income	**$2.10**	$1.67

See accompanying statement of accounting policies and notes to financial statements.

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1979	1979	1978
Balance – Beginning of Year	**$17,028,600**	$22,084,528
Net earnings for the year	**24,120,899**	18,191,221
	41,149,499	40,275,749
Dividends –		
First Preference shares	**2,277,357**	624,990
8% Second Preference shares	**1,945,315**	1,975,719
6% Third Preference shares	**1,665**	–
Common shares	**5,588,499**	5,412,127
	9,812,836	8,012,836
Retained earnings capitalized	**–**	15,239,068
Cost under the stated book value of preference shares purchased for cancellation	**19,506**	4,755
	9,793,330	23,247,149
Balance – End of Year	**$31,356,169**	$17,028,600

See accompanying statement of accounting policies and notes to financial statements.

Consolidated Balance Sheet

As at December 31, 1979	1979	1978
Assets		
Current Assets		
Cash and short-term investments	**$ 13,243,294**	$ 20,804,104
Accounts receivable	**76,270,197**	64,565,947
Inventories (note 2)	**102,875,658**	71,257,051
Prepaid expenses and other assets	**8,141,029**	2,513,159
	200,530,178	159,140,261
Fixed Assets—at cost (note 3)	**149,448,324**	125,865,862
Less: Accumulated depreciation and amortization	**59,654,101**	49,920,588
	89,794,223	75,945,274
Other Assets (note 4)	**1,126,066**	3,002,127
Intangibles	**12,659,284**	12,336,897
	$304,109,751	$250,424,559

See accompanying statement of accounting policies and notes to financial statements.

Signed on behalf of the board

George E. Mara, Director

H. Gordon MacNeill, Director

Consolidated Balance Sheet

As at December 31, 1979	1979	1978
Liabilities		
Current Liabilities		
Bank indebtedness (note 5)	**$ 64,801,709**	$ 43,973,902
Accounts payable and accrued liabilities	**44,583,027**	36,853,375
Income taxes payable	**8,752,997**	8,891,558
Current instalments of long-term debt (note 6)	**4,032,657**	228,483
Dividends payable	**2,007,769**	1,242,302
Deferred income taxes	**3,365,902**	1,666,000
	127,544,061	92,855,620
Long-Term Debt (note 6)	**30,261,510**	29,597,207
Deferred Income Taxes	**11,821,273**	10,438,732
Minority Interest	**12,951,351**	10,872,038
	182,578,195	143,763,597
Shareholders' Equity		
Share Capital (note 7)		
Issued and fully paid –		
1,500,000 First Preference shares, Series One	**30,000,000**	30,000,000
1,604,358 8% Second Preference shares	**24,065,370**	24,535,620
503 6% Third Preference shares	**5,030**	–
9,539,913 Common shares	**36,104,987**	35,096,742
Retained Earnings	**31,356,169**	17,028,600
	121,531,556	106,660,962
	$304,109,751	$250,424,559

See accompanying statement of accounting policies and notes to financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Jannock Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Ontario
February 15, 1980

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1979	1979	1978
Source of Working Capital		
Net earnings for the year before extraordinary income	$24,069,683	$18,191,221
Items not affecting working capital –		
Depreciation	7,187,213	5,152,874
Deferred income taxes	481,524	484,470
Amortization of other assets	93,688	139,709
Amortization of goodwill	14,419	–
Loss (gain) on sale of fixed assets	(150,550)	(95,290)
Minority interest in earnings	2,576,340	1,151,000
Provided from operations	34,272,317	25,023,984
Proceeds from disposal of fixed assets	1,176,680	209,871
Proceeds on disposal of other assets	3,447,923	298,330
Issue of share capital	1,787,755	30,197,952
Increase in long-term debt	4,866,030	18,095,500
Current income taxes applicable to extraordinary income	367,810	–
	45,918,515	73,825,637
Use of Working Capital		
Acquisition of subsidiaries	6,493,000	40,769,590
Less working capital acquired	(290,151)	31,124,046
	6,783,151	9,645,544
Increase in investments	–	33,333
Additions to fixed assets	15,140,266	9,024,911
Reduction of long-term debt	5,758,535	12,838,211
Reduction of preference share capital	1,225,224	452,745
Dividends to shareholders	9,812,836	8,012,836
Dividends to minority shareholders of subsidiaries	497,027	249,000
	39,217,039	40,256,580
Increase in Working Capital	6,701,476	33,569,057
Working Capital – Beginning of Year	66,284,641	32,715,584
Working Capital – End of Year	$72,986,117	$66,284,641

See accompanying statement of accounting policies and notes to financial statements.

Statement of Accounting Policies

For the Year Ended December 31, 1979

Principles of Consolidation
The consolidated financial statements include the accounts of all subsidiaries. Intercompany transactions and account balances have been eliminated on consolidation. Acquisitions are accounted for by the purchase method and accordingly the results of operations of subsidiaries are included from the dates of acquisition.

Inventories
Inventories, other than commodity inventories, are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Commodity inventories are stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis with the exception of refined sugar, which is determined on the average cost for the year.

Fixed Assets
Fixed assets are carried at cost.

Depreciation of fixed assets, which is based on management's estimate of the useful life, is calculated on a straight-line basis.

Profits and losses on the sale of fixed assets are charged to operations unless of an extraordinary nature.

Deferred Income Taxes
Deferred income taxes are provided for all differences between the income and expenses reflected in the statements and the amounts included in the computation of income for tax purposes for the current year, provided that such differences will be included in the computation of income for tax purposes in future years. These timing differences are primarily comprised of:

- the excess of capital cost allowance for income tax purposes over depreciation expense.
- accounts receivable holdbacks and profit on uncompleted contracts which are not yet subject to income taxes.

Investment tax credits are deferred and amortized over the useful life of the related fixed assets.

Intangibles
Intangibles comprise principally goodwill, being the excess of cost of investment in subsidiaries over the assigned value of net assets acquired. The amount arising prior to March 31, 1974 is not being amortized as management believes it has a continuing value. In accordance with generally accepted accounting principles, the amount relating to acquisitions after March 31, 1974 is being amortized on a straight-line basis over the lesser of its estimated useful life and forty years. Goodwill is written down by a charge to earnings as an extraordinary item when, in the opinion of management, there has been a permanent impairment in value.

Translation of Foreign Currencies
Accounts in foreign currencies have been translated into Canadian dollars using the "temporal" method. Under this method, current assets (except inventories), current liabilities and long-term debt are translated at the year-end exchange rate. The other assets and liabilities, including inventories and fixed assets, and the related charges to reflect cost of inventories sold and depreciation, are translated at the historical rate of exchange prevailing at the date of acquisition. All other revenue and expense accounts are translated at the average rate of exchange during the year, calculated on a monthly basis.

Exchange gains or losses on translation of long-term debt are amortized on a straight-line basis over the term of the debt. The amortization for the year and all other foreign exchange gains and losses are included in the determination of net earnings for the year.

Contract Revenues
Revenues from construction supply-and-install contracts are recognized on the percentage of completion basis.

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1979

1. Significant Changes in Operations

On April 2, 1979 the Corporation purchased all the outstanding shares of F.B. McFarren, Limited, a brick manufacturer in Streetsville, Ontario. On September 6, 1979 the Corporation purchased all the outstanding shares of Tiffany Brick, Inc. of San Antonio, Texas. Details of these acquisitions are as follows:

Assigned value of net assets:	
Fixed assets	$ 6,912,067
Goodwill	1,728,474
Long-term debt	(1,652,208)
Deferred income taxes	(205,182)
	6,783,151
Current assets	3,757,244
Current liabilities	4,047,395
Working capital	(290,151)
Total purchase price	$ 6,493,000
Consideration:	
Cash	$ 4,083,870
Notes payable – 10% due 1982	2,409,130
	$ 6,493,000

Effective May 31, 1978, the Corporation acquired 76.6% of the outstanding shares of Westeel-Rosco Limited for $32,636,962 cash. Other 1978 acquisitions included H.B. Sipple Brick Company on March 31, 1978 and Richland Brick Company on August 31, 1978 for a total of $8,132,628 cash.

2. Inventories

	1979	1978
Raw materials and supplies	**$ 35,803,277**	$20,347,843
Work in process	**4,758,673**	9,366,230
Finished goods	**62,313,708**	41,542,978
	$102,875,658	$71,257,051

3. Fixed Assets

	1979 Cost	1979 Net	Depreciation rates %	1978 Cost	1978 Net
Land	**$ 12,087,365**	**$11,548,145**	–	$ 8,840,153	$ 8,603,110
Buildings	**39,254,666**	**25,252,869**	2½–5	38,089,181	25,178,988
Plant equipment	**78,354,653**	**40,168,937**	5–20	67,123,807	35,267,716
Mobile equipment	**4,950,746**	**2,251,109**	20–33	3,809,614	1,964,141
Furniture and fixtures	**4,972,638**	**1,531,052**	10–20	4,551,677	1,576,536
Leasehold improvements	**1,845,129**	**1,058,984**	5–10	162,201	65,554
Construction in progress	**7,983,127**	**7,983,127**	–	3,289,229	3,289,229
	$149,448,324	**$89,794,223**		$125,865,862	$75,945,274

Insured value on the basis of replacement cost as at December 31, 1979 was $237,800,000.

4. Other Assets

Other assets include a long-term loan receivable from an officer of $352,356 (1978 – $398,795).

5. Bank Indebtedness

Bank loans aggregating $26,559,709 are secured by inventories and a general assignment of book debts.

6. Long-Term Debt

	1979	1978
Jannock Limited		
Sinking fund debentures 6¾% Series 'A' maturing 1985	**$ 1,014,390**	$ 1,057,310
Jannock Industries Limited		
Sinking fund bonds 6¾% Series 'A' maturing 1984 Secured by guarantee of Jannock Limited	**1,508,000**	1,906,000
Westeel-Rosco Limited		
Mortgage – 10½% maturing 1992 Secured by certain fixed assets	**3,231,000**	3,270,000
Canada Brick Company Limited		
Term loan – commercial paper rate plus 1½% maturing 1984	**8,300,000**	8,300,000
Term loan "Libor" rate plus 1¼% maturing 1984. The principal amount is $11,700,000 U.S.	**13,747,500**	13,864,100
These two loans are secured by a first mortgage on the fixed assets of Canada Brick Company Limited and other collateral		
Michigan Brick, Inc.		
Notes payable – 10% maturing January 1, 1982. The principal amount is $2,059,000 U.S. Secured by guarantee of Jannock Limited	**2,419,325**	–
Tiffany Brick, Inc.		
Term bank loan – prime U.S. rate plus 1½% maturing 1985. The principal amount is $2,000,000 U.S. Secured by fixed assets	**2,350,000**	–

6. Long-Term Debt (continued)

	1979	1978
Other – the principal amount is $346,123 U.S.	**404,155**	–
St. Lawrence Brick Co. Limited		
First mortgage sinking fund bonds 9⅜% Series 'A' maturing 1990 Secured by fixed assets	**1,060,000**	1,143,000
Sonco Steel Tube Limited		
First mortgage 7¾% maturing 1986 Secured by land and buildings	**259,797**	285,280
	34,294,167	29,825,690
Less: Sinking fund and principal payments due within one year	**4,032,657**	228,483
	$30,261,510	$29,597,207

Payments of principal and interest (calculated, where applicable, on rates existing at December 31, 1979) required during the next five years to meet long-term debt instalments and sinking fund provisions are:

	Principal	Interest
1980	$ 4,032,657	$4,389,814
1981	4,703,616	3,797,320
1982	4,710,287	3,180,801
1983	3,903,451	2,638,897
1984	12,627,771	923,111

7. Share Capital

(a) Authorized

3,000,000 First Preference shares with a par value of $20 each, issuable in series. The first series, consisting of 1,500,000 shares, are designated as Cumulative Redeemable First Preference shares, Series One and are non-voting unless six quarterly dividends are in arrears. The dividend rate for these shares is a rate equal to one-half the Canadian prime bank rate plus 1¼%. The Corporation must redeem 250,000 of these shares in each of the years 1985 to 1987 inclusive and the balance in 1988. The provisions attaching to these shares provide for early retirement in certain events and contain restrictions on the issuance of additional debt.

1,684,210 8% Cumulative Redeemable Second Preference shares with a par value of $15 each. These shares may be purchased for cancellation from a $300,000 annual purchase fund and carry no voting rights until six quarterly dividends are in arrears.

922,522 6% Cumulative Non-voting Third Preference shares with a par value of $10 each. These shares may be redeemed at the option of the Corporation or the holder at par.

20,000,000 Common shares, without par value.

By a Certificate of Amendment of Articles effective January 3, 1979 the following changes were made to the capital structure:

(i) Increased the authorized First Preference shares from 1,500,000 to 3,000,000 shares, issuable in series.
(ii) Authorized 1,000,000 6% Cumulative Non-voting Third Preference shares with a par value of $10 each.
(iii) Reclassified the Class A shares and Class B shares as Common shares.
(iv) Increased the authorized Common shares to 10,000,000 shares.

On September 12, 1979 the authorized Common shares were further increased to 20,000,000 shares by a Certificate of Amendment of Articles.

(b) Share Subdivision

On September 12, 1979 the Common shares of the Corporation were subdivided on a 2 for 1 basis.

(c) Changes during the year

There were 31,350 Second Preference shares redeemed during the year at a cost of $450,744.

There were 77,951 Third Preference shares issued to Common shareholders as dividends under the Optional Dividend Plan at a stated value of $779,510. Subsequently, 77,448 of these shares were redeemed for $774,480 cash.

There were 150,074 Common shares issued during the year for a cash consideration of $865,444 as the result of the exercise of certain options and warrants. In addition, 11,297 Common shares were issued to Common shareholders as dividends under the Optional Dividend Plan for a stated value of $142,801.

(d) Reservations of Capital Stock

(i) Warrants

The following share purchase warrants are outstanding:

Name	Number	Number and Class of shares	Exercise Price	Expiry Date
1977 Warrants	724,625	2 Common shares	$12.00 per 2 shares	July 31, 1982
			$15.00 per 2 shares	July 31, 1987

As a result of the above-mentioned share subdivision during 1979, a warrant now carries the right to purchase two Common shares for an aggregate consideration as detailed above. The unit of trading on The Toronto Stock Exchange and the Montreal Stock Exchange represents the right to purchase one Common share. One warrant therefore represents two trading units.

7. Share Capital (continued)
(d) Reservations of Capital Stock – (continued)
(ii) Options
193,500 Common shares have been reserved under a stock option plan for officers and employees. There are options outstanding for 12,000 shares dated April 19, 1972 exercisable at $3.50 and expiring April 19, 1982.

250,000 Common shares are reserved under a share purchase plan for officers and employees. The purchase price is market value at the date of issue of shares under the plan.

(iii) Optional Dividend Plan
88,703 Common shares have been reserved for issuance under the Corporation's Optional Dividend Plan whereby Common shareholders can receive Common shares as dividends in lieu of cash at the average quoted market value of the shares for the ten trading days following the dividend record date. An initial total of 100,000 Common shares were reserved for issuance, which amount was reduced by shares issued under the Plan. Additional Common shares can be reserved by board resolution if there is a need to increase the number of shares reserved for the Plan.

(e) Earnings per share
Earnings per share were calculated on the following basis:

	1979	1978
Earnings for the year before extraordinary income	**$24,069,683**	$18,191,221
Earnings before extraordinary income applicable to Common shares	**$19,845,346**	$15,590,512
Average number of Common shares outstanding during the year	**9,457,464**	9,351,150
Earnings per share – before extraordinary income	**$2.10**	$1.67
The exercise of warrants and options would result in dilution of earnings per share as follows:		
Earnings per share – before extraordinary income	**$2.10**	$1.67
Exercise of options	**–**	–
Exercise of warrants	**(0.23)**	(0.20)
Fully diluted earnings per share – before extraordinary income	**$1.87**	$1.47
Fully diluted earnings per share – after extraordinary income	**$1.87**	$1.47

The foregoing calculations recognize the 2 for 1 share subdivision of September 12, 1979 on a retroactive basis.

8. Extraordinary Income

	1979	1978
Profit on disposal of investments (net of current and deferred income taxes of $328,025)	**$1,442,884**	–
Write-down of goodwill	**(1,391,668)**	–
	$ 51,216	–

9. Commitments
Operating lease commitments are as follows:

1980	$1,683,205
1981	1,314,814
1982	664,953
1983	365,984
1984	284,971
1985–1989	616,480
1990–1994	183,456
	$5,113,863

Capital expenditures committed at December 31, 1979 amounted to $16,735,000. In addition, the board of directors has approved a further $14,368,000 of capital expenditures.

10. Pension Plans
The Corporation and its subsidiaries have a number of pension plans for employees. There are no unfunded liabilities in respect of these pension plans.

11. Remuneration of Directors and Officers
The aggregate direct remuneration paid to the directors and officers during 1979 totalled $626,025 (1978 – $535,589).

12. Sales
The sales by class of business were as follows:

	1979	1978
Steel	**$294,467,376**	$184,240,693
Sugar	**92,027,979**	88,535,775
Brick	**55,318,157**	40,221,852
Other	**12,833,582**	10,303,479
	$454,647,094	$323,301,799

13. Comparative Figures
Certain 1978 figures have been reclassified for comparative purposes.

Historical Summary

57 3 $1.71 2

57 4 $2.28

	1979	1978	1977	1976	1975
Income Information ($000)					
Sales	**454,647**	323,302	175,773	174,640	226,943
Earnings from Operations	**57,424**	40,850	23,602(3)	22,200	17,125
Net Earnings before Extraordinary Items	**24,070**	18,191	12,819	11,211	7,569
Net Earnings after Extraordinary Items	**24,121**	18,191	12,819	11,249	7,342
Depreciation	**7,187**	5,153	3,065	2,590	3,250
Earnings per Share ($) –					
Before Extraordinary	**2.10**	1.67	1.13	.93	.57
After Extraordinary	**2.10**	1.67	1.13	.93	.55
Cash Flow from Operations	**34,272**	25,024	17,011	15,536	12,246
Interest on Long-Term Debt	**3,562**	3,292	2,224	2,646	2,914
Balance Sheet Information ($000)					
Current Assets	**200,530**	159,140	66,011	65,945	70,610
Current Liabilities	**127,544**	92,856	33,295	24,867	37,853
Working Capital	**72,986**	66,284	32,716	41,078	32,757
Fixed Assets – Net	**89,794**	75,945	42,890	35,178	36,020
Other Assets	**1,126**	3,002	2,077(3)	4,980	2,426
Intangibles	**12,659**	12,337	12,337(3)	12,431	12,481
Total Assets	**304,110**	250,425	123,315	118,535	121,537
Long-Term Debt	**30,262**	29,597	16,483	25,643	22,716
Deferred Income Taxes	**11,821**	10,439	6,799	6,763	6,818
Minority Interest	**12,951**	10,872	–	–	–
First Preference Shares – Book Value	**30,000**	30,000	–	–	–
Second Preference Shares – Book Value	**24,065**	24,536	24,993	24,726	25,048
Shareholders' Equity – Common (2)	**67,461**	52,125	41,744	36,535	29,102
Shareholder Information					
Dividend Paid ($) – Common (2) (4)	**.59**	.54	.27	.25	.25
Equity per Share ($) (2) (4)	**7.07**	5.56	4.48	3.61	2.92
Return on Shareholders' Equity (%)	**29.4**	29.9	26.3	25.5	19.5
Number of Shares Outstanding – Common (2) (4)	**9,539,913**	9,378,542	9,325,550	10,133,860	9,983,860
Number of Shareholders – Common (2) (4)	**5,616**	5,152	5,635	5,764	6,073
Number of Second Preference Shares Outstanding	**1,604,358**	1,635,708	1,666,208	(1)	(1)
Number of Second Preference Shareholders	**4,558**	4,887	5,118	(1)	(1)
Market Range ($)					
Common Shares (2) (4) – High	**14.63**	10.75	6.38	3.75	3.38
– Low	**9.25**	5.88	3.38	2.50	2.35
Second Preference Shares – High	**15.50**	15.63	14.63	(1)	(1)
Low	**13.00**	13.75	13.00		
1977 Warrants (4) – High	**8.75**	7.63	1.75	(1)	(1)
Low	**4.75**	1.60	.75		

Notes:
(1) Not applicable due to effect of 1977 Share Capital Reorganization.
(2) Class A and Class B shares were reclassified as Common shares on January 3, 1979.
(3) Certain 1977 numbers have been reclassified for comparative purposes.
(4) Common shares subdivided on a two for one basis effective September 12, 1979.

Corporate Directory

Corporate Management
H. Gordon MacNeill
President and Chief Executive Officer

C.W. (Leo) Leonardi
Executive Vice President, Finance

R. Jay Atkinson
Vice President, Corporate Development

R. Harold Weir
Vice President and Secretary

Peter S. Hayward
Treasurer

R. Keith McAlpine
Controller

Operating Management
E. Yngve Carlson
President
Canada Brick Company Limited
P.O. Box 668, Britannia Road West, Streetsville, Ontario L5M 2C3
Tel: (416) 277-2794

Roy A. Crolly
President
Allanson Manufacturing Company Limited
33 Cranfield Road, Toronto, Ontario
M4B 3H2
Tel: (416) 755-1191

Leo E. Labrosse
President
Atlantic Sugar Limited
P.O. Box 7, 5660 Ferrier Street, Montreal, Quebec H3C 1C5
Tel: (514) 342-5660

John G. MacKay
President
Sonco Steel Tube Limited
14 Holtby Avenue, Brampton, Ontario
L6X 2M1
Tel: (416) 451-2400

Douglas G. Sinclair
President
Jannock Tube Limited
837 Fourth Line, Oakville, Ontario
L6L 5B8
Tel: (416) 845-1642

Lawrence R. Wright
President
Westeel-Rosco Limited
1 Atlantic Avenue, Toronto, Ontario
M6K 1X7
Tel: (416) 537-4411

Head Office
P.O. Box 43, Toronto-Dominion Centre, Toronto, Ontario
M5K 1B7
Tel: (416) 364-8586

Bankers
The Toronto-Dominion Bank

Auditors
Coopers & Lybrand

General Counsel
Fraser & Beatty, Toronto
McCarthy & McCarthy, Toronto

Incorporation
Province of Ontario

Stock Listing
The Toronto Stock Exchange
Montreal Stock Exchange

Transfer Agent & Registrar
Canada Permanent Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver

The Directors

Lewis H. M. Ayre
St. John's, Newfoundland
Chairman of the Board
Ayre & Sons, Limited

** **Jack C. Barrow**
Toronto, Ontario
Director
Simpsons-Sears Limited

* ** **J. Allan Boyle**
Toronto, Ontario
President
The Toronto-Dominion Bank

L. Yves Fortier
Montreal, Quebec
Partner
Ogilvy, Renault

* **William M. Hatch**
Toronto, Ontario
Chairman
Hatchwill Investments Limited

** **J. Howard Hawke**
Toronto, Ontario
Chairman
Bache, Halsey, Stuart Canada Ltd.

* **H. Gordon MacNeill**
Toronto, Ontario
President and Chief Executive Officer
Jannock Limited

* **George E. Mara**
Toronto, Ontario
Chairman of the Board
Jannock Limited

William J. R. Paton
Thunder Bay, Ontario
Chairman of the Board
The Northern Engineering & Supply Co. Limited

Donald R. Sobey
Stellarton, Nova Scotia
President
Empire Company Limited

** **Walter G. Ward**
Toronto, Ontario
Chairman of the Board
Algoma Steel Corporation Limited

* **Donald G. Willmot**
Toronto, Ontario
Chairman of the Board
The Molson Companies Limited

*Member of the Executive Committee
**Member of the Audit Committee